

COMPANY UPDATE

Transport Trade Services SA

from Buy to Accumulate

Analyst: Caius Rapanu +4 0373 510 441 caiusroa.rapanu@bcr.ro

Share price (RON) close as of 20/03/2024	27.0	Reuters	TTS.BX	Free float	67.7%
Number of shares (mn)	60.0	Bloomberg	TTS RO	Shareholders	Government (0.0%)
Market capitalization (RON mn / EUR mn)	1,620 / 326	Div. Ex-date	15/05/23		
Enterprise value (RON mn / EUR mn)	1,401 / 282	Target price	30.4	Homepage:	

Key figures Overview

RON mn	2022	2023	2024e	2025e
Net sales	934.4	1,180.0	1,257.3	1,106.2
EBITDA	283.4	483.8	383.5	304.2
EBIT	210.5	402.0	268.5	185.1
EBT	208.7	401.8	266.2	180.8
Net profit	179.0	337.6	223.6	151.9
EPS (RON)	2.98	5.63	3.73	2.53
CEPS (RON)	1.88	3.86	2.77	2.40
BVPS (RON)	13.64	17.28	19.82	21.57
Dividend/Share (RON)	0.55	2.25	1.49	1.01
EV/EBITDA (x)	2.56	3.32	3.65	4.05
P/E (x)	3.84	4.80	7.25	10.67
P/CE (x)	6.08	7.00	9.75	11.23
Dividend yield (%)	4.80	8.33	5.52	3.75
EBITDA margin (%)	30.33	41.00	30.50	27.50
Operating margin (%)	22.53	34.07	21.35	16.73
Net profit margin (%)	19.16	28.61	17.78	13.73

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	50,527	76,033	55,570
Trading value (RON mn)	1.3	2.1	1.2



Price performance:	1M	3M	6M	12M
in EUR	-6.8%	1.4%	31.0%	122.8%

Financial Strength

	2022	2023	2024e	2025e
ROE (%)	28.46	41.91	22.90	13.94
ROCE (%)	24.96	39.61	24.90	18.71
Equity ratio (%)	81.43	79.62	80.86	83.77
Net debt (RON mn)	-78.24	-141.01	-364.79	-546.15
Gearing (%)	-9.56	-13.60	-30.67	-42.19

2023 partial results: great year, weaker 4Q, possible drivers' changes ahead

After substantial gains in share price, we downgrade our recommendation for TTS shares to accumulate, maintaining our target price. A lack of operational and financial data does not enable us to alter our financial model currently. Partial results released by TTS have reaffirmed 2023 as a record year, as already expected on the back of previously announced quarterly figures. 4Q23, compared to the previous quarter, has shown a decline in profitability that could be more than a seasonal effect and may represent the harbinger of a new evolution of company drivers. Indeed, the flow of Ukrainian grain has suffered a dramatic decline, on the back of redirected logistics in the Black Sea. TTS' premier position on the market has prevented the company to suffer severe volume loss, however tariffs seem to have weakened. At the same time, costs, especially personnel related, have grown and exceeded savings on declining fuel prices (anyway hedged with bunkering agreements).

Looking forward, the company expects a more "normal" year in 2024, with declining top line and increasing costs. Minerals and chemicals volumes should start growing and compensate partially the lower cereal volumes, while higher personnel and depreciation costs should overcome savings with fuel. The margin decline is largely in line with our previous estimates, however it appears that company outlook is marginally more cautious than our old forecast. We will be amending our valuation model once 2023 operational and financial data is released.

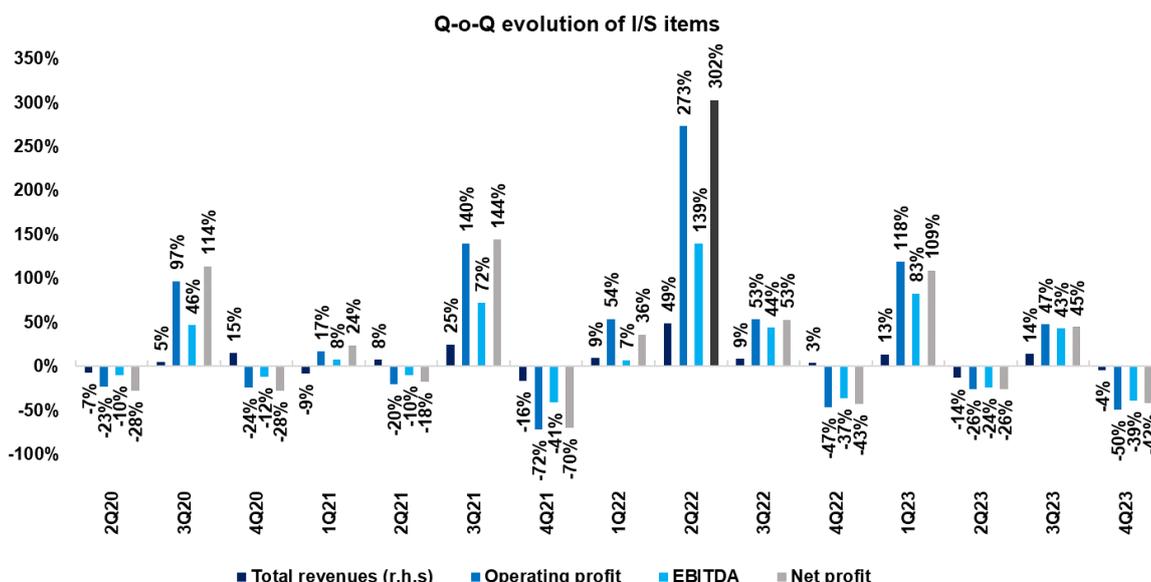
2023 Consolidated and individual balance sheet and income statement reported. TTS released preliminary figures for 2023, in an abridged format showing individual and consolidated income statement and balance sheet. No other information, operational or financial is available. We expect more detailed operational and financial data by the end of April, with the publication of the annual report and the GSM.

Preliminary reporting summary

(mn. RON)	4Q23	4Q22	chnq.	3Q23	chnq.	4Q21	chnq.	2023	2022	chnq.	2021	chnq.
Total revenues	288.1	270.4	6.5%	301.5	-4.4%	144.4	99.5%	1161.1	934.4	24.3%	598.8	93.9%
Materials	-28	-32.8	-14.6%	-24.8	12.9%	-15.4	81.8%	-108	-123.8	-12.8%	-79.7	35.5%
COGS	-5.4	-6.1	-11.5%	-8.5	-36.5%	-7.3	-26.0%	-36.4	-32.5	12.0%	-44	-17.3%
Depreciation	-25.1	-20.8	20.7%	-22	14.1%	-14.1	78.0%	-86.1	-72.9	18.1%	-61.6	39.8%
Subcontr.	-83.7	-100.2	-16.5%	-71.9	16.4%	-51.5	62.5%	-329.7	-331.2	-0.5%	-208.7	58.0%
Wages	-67	-41.2	62.6%	-57.7	16.1%	-26.4	153.8%	-214	-124.2	72.3%	-98.5	117.3%
Other exp.	-11.6	-12.7	-8.7%	-11.6	0.0%	-9.2	26.1%	-45.1	-45.1	0.0%	-41.9	7.6%
Gains/losses	-10.3	-9	14.4%	8.5	-221.2%	-4.3	139.5%	9.7	5.8	67.2%	15.5	-37.4%
Operating expenses	-231.1	-222.8	3.7%	-188	22.9%	-128.2	80.3%	-809.6	-723.9	11.8%	-518.9	56.0%
Operating profit	57	47.6	19.7%	113.5	-49.8%	16.2	251.9%	351.5	210.5	67.0%	79.9	339.9%
Fin. Rev.	-0.1	0.2	-150.0%	0.8	-112.5%	-0.5	-80.0%	1.6	1	60.0%	0.9	77.8%
Fin. Costs	-0.6	-0.2	200.0%	-0.3	100.0%	-0.5	20.0%	0.4	-2.8	-114.3%	-1.9	-121.1%
Net fin.	(0.7)	0.0	n.m.	0.5	-240.0%	-1	-30.0%	2	-1.8	-211.1%	-1	-300.0%
PBT	56.3	47.6	18.3%	114	-50.6%	15.2	270.4%	353.5	208.7	69.4%	78.9	348.0%
Tax	-1.1	-4.9	-77.6%	-18.7	-94.1%	-2.5	-56.0%	-48.1	-29.7	62.0%	-12.5	284.8%
Net Income	55.2	42.7	29.3%	95.3	-42.1%	12.7	334.6%	305.4	179	70.6%	66.4	359.9%
<i>Net margin</i>	19.2%	15.8%		31.6%		8.8%		26.3%	19.2%		11.1%	
EBITDA	82.1	68.4	20.0%	135.5	-39.4%	30.3	171.0%	437.6	283.4	54.4%	141.5	209.3%
<i>EBITDA margin</i>	28.5%	25.3%		44.9%		21.0%		37.7%	30.3%		23.6%	

Source: Company data, Erste Group Research

Top line boost... 2023 YE consolidated revenues registered at RON1,161mn, a jump by 24% compared to the previous year, and almost twice higher compared to 2021. On a quarterly basis, during 4Q23 total revenues were RON288mn and were 6.5% higher compared to the same period of last year, while they declined by 4% compared to 3Q23.



Source: Company data, Erste Group Research

... on the back of overall 2023 higher tariffs and volumes. As the company hasn't reported any operational data, we can only assume that the trends of the first nine months of the year remained valid during the last quarter as well, of course considering the seasonal impact of the fourth

quarter, which has seen a decline vs the previous quarter, while maintaining a positive dynamic y-o-y, a trend that persisted for the last four years.

4Q23: volumes in line, lower tariffs. According to management, during the last quarter of the year, the volumes transported and operated by the company were largely in line with the previous quarter of the years, albeit we expect some shifts between segments of goods and between river transport and port operations. Also, management stated that overall tariffs in the fourth quarter of 2023, were generally lower. We believe the tariff weakness to come on the back of lower tariffs for Ukrainian cereals in Constanta Port (see discussion below). However, in absence of detailed volume and revenue data for the fourth quarter, we are not able to ascertain the specific dynamics of tariffs either average, or on distinct good segments.

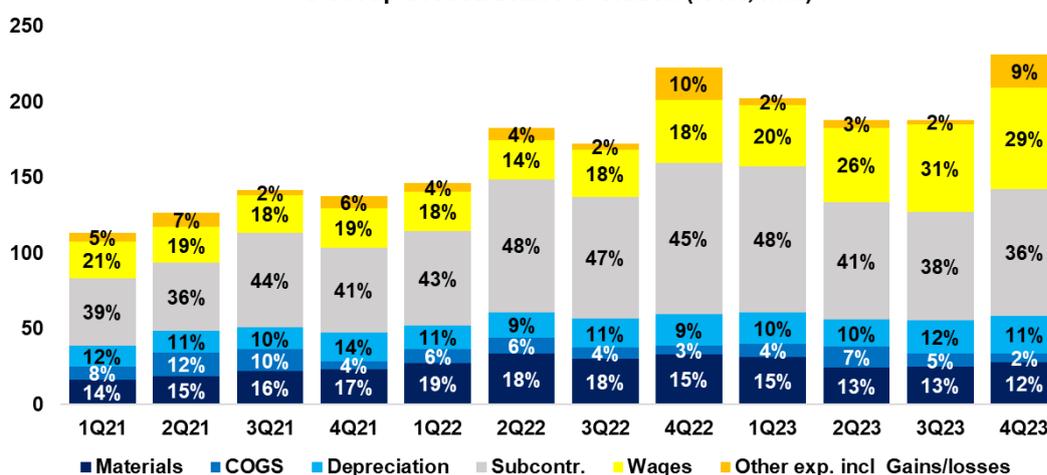
Cost breakdown

Expenses (RON, mn.)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Materials	16.1	18.6	22	23	27.2	33.6	30.2	32.8	31.2	24	24.8	28
COGS	8.9	15.6	14.2	5.3	9.1	10.2	7.1	6.1	8.6	13.9	8.5	5.4
Depreciation	13.7	14.2	14.4	19.3	15.9	17.1	19.1	20.8	21	18	22	25.1
Subcontr.	44.7	45.1	62.8	56.1	62.2	88	80.8	100.2	96.4	77.7	71.9	83.7
Wages	24	23.7	25.1	25.7	26.2	25.5	31.3	41.2	40.3	49	57.7	67
Other exp. incl Gains/losses	5.8	9.5	2.9	8.2	5.5	8.1	4	21.7	5	5.4	3.1	0
Total	113.2	126.7	141.4	137.6	146.1	182.5	172.5	222.8	202.5	188	188	209.2

Source: Company data, Erste Group Research

Expenses grow less than revenues y-o-y. During 2023, total operating expenses amounted to RON810mn, and grew less than 12% compared to 2022, and about 56% compared to 2021. On a quarterly basis, during 4Q23 total operating expenses increased by almost 4% compared to the last quarter of the previous year and by 23% compared to the expenses of 3Q23.

TTS Group cost structure evolution (RON, mn.)



Source: Company data, Erste Group Research

Cost evolution

Percentage of revenues	4Q23	4Q22	3Q23	4Q21	2023	2022	2021
Materials	9.7%	12.1%	8.2%	10.7%	9.3%	13.2%	13.3%
COGS	1.9%	2.3%	2.8%	5.1%	3.1%	3.5%	7.3%
Depreciation	8.7%	7.7%	7.3%	9.8%	7.4%	7.8%	10.3%
Subcontr.	29.1%	37.1%	23.8%	35.7%	28.4%	35.4%	34.9%
Wages	23.3%	15.2%	19.1%	18.3%	18.4%	13.3%	16.4%
Other exp.	4.0%	4.7%	3.8%	6.4%	3.9%	4.8%	7.0%
Gains/losses	3.6%	3.3%	-2.8%	3.0%	-0.8%	-0.6%	-2.6%

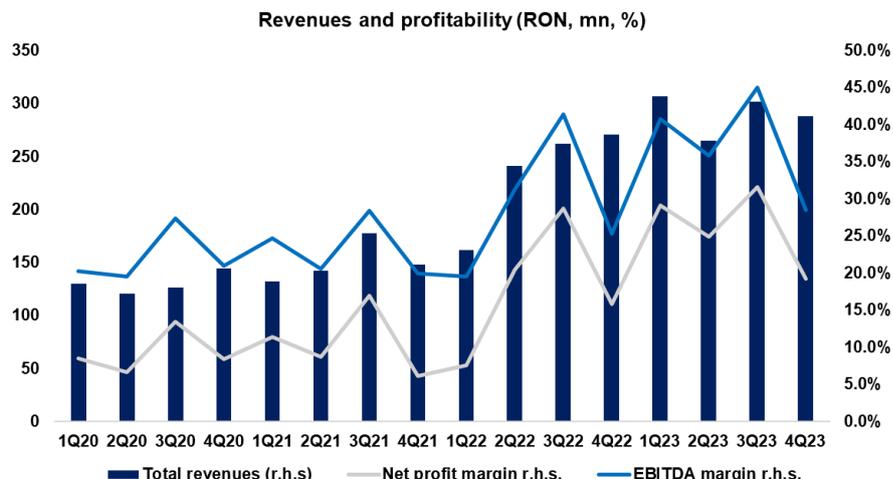
Source: Company data, Erste Group Research

Fuel, wages, depreciation ... On a yearly basis, the bulk of the operating expenses' variation was due to three items. These were: fuel costs, depreciation and personnel related costs. All these costs' variations were both expected and unavoidable. Fuel costs declined both as an absolute number and as a share of total costs, on the back of the lower energy prices in general. Depreciation grew on the back of higher investments and acquisitions, while by far the largest increase in cost items was due to personnel costs that grew from RON124mn in 2022 to RON214mn in 2023, a 72% jump in absolute terms. In relative terms, the increase in personnel costs accounted for the largest growth in costs, together with depreciation and more than balanced the decline in fuel costs. The other cost items' evolution was less significant. When more detailed data will appear, we will be able to further analyze the matter.

Percentage of total cost increase	2023/2022	4Q23/4Q22	4Q23/3Q23
Materials	-18.4%	-57.8%	7.4%
COGS	4.6%	-8.4%	-7.2%
Depreciation	15.4%	51.8%	7.2%
Subcontr.	-1.8%	-198.8%	27.4%
Wages	104.8%	310.8%	21.6%
Other exp.	0.0%	-13.3%	0.0%
Gains/losses	-4.6%	15.7%	43.6%
Operating expenses	100.0%	100.0%	100.0%

Source: Company data, Erste Group Research

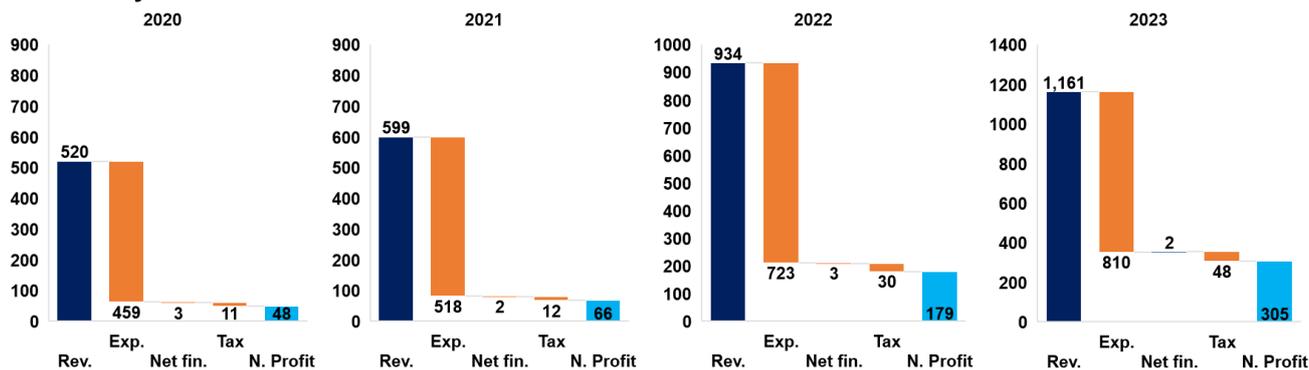
... on a quarterly basis q-o-q cost evolution worsens. On quarterly basis, the overall operating expenses grew only 4% y-o-y while revenues increase close to 7%. Vs. 4Q22 fuel costs are significantly lower, and so are subcontractors' costs, but depreciation and especially wages grow significantly. However, a more relevant cost evolution analysis relates to the comparison between the last quarter of 2023 and the third quarter of the year. During 4Q23, total operating costs increased by a whopping 23%, on a 4% decline in revenues. The increases were due to fuel, to subcontractors and to personnel related costs. This evolution was largely expected since the number of personnel has increased (no specific data released yet) and wages have gone up with inflation. In terms of subcontractors, it is worth noting that these expenses include – according to management – also shipyard costs, that actually are investments in the upgrade of the fleet.



Source: Company data, Erste Group Research

Record profitability for the year, seasonal decline in last quarter. On a yearly basis, 2023 results show a significant boost in operating profits by 67% compared to previous year and 340% compared to 2021. EBITDA increased by 55% compared to 2022 and jumped by about 210% vs. 2021. Net income followed the same trend of EBIT, almost identically. In the last quarter of 2023, profits, both operating and net increased about 20%-30% vs the same period of the previous year. However, there was a decline compared to the record high margins of the previous quarter. Operating profit and net income declined by almost half, while EBITDA declined by almost 40%. Again, we have seen this in the later quarters of previous years, almost identical, however it is not clear the share of impact due to seasonality as a main factor, or a more permanent trend at work. Most probably, it is a combination of both, with the increased exports of Ukrainian grain from Odessa contributing to an easing of tariffs and, as a consequence, to the decline in profitability.

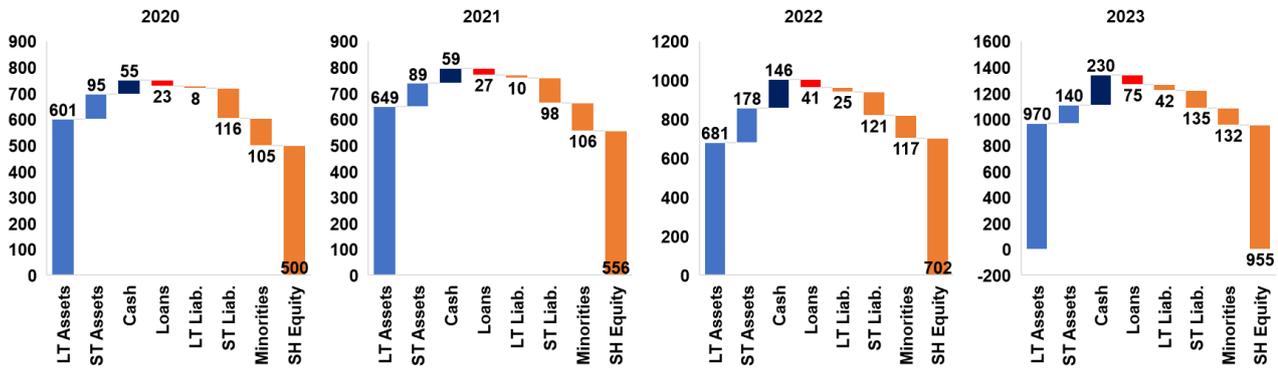
Profitability evolution



Source: Company data, Erste Group Research

Shareholders' equity boost. At the end of 2023, shareholders' equity stood at about RON955mn, an increase of 36% compared to the previous year, and 72% more than in 2021. Cash and equivalents position increased substantially from RON146mn at the end of 2022 to RON230 at the end of 2023, while the liability side of the balance sheet increased moderately on the back of an increase in loans (short and long term) of about RON44mn.

Balance sheet evolution



Source: Company data, Erste Group Research

No cash flow statement or notes to the financial statements. The company has not released any other data than B/S and I/S on an individual and consolidated basis. However, management announced that the amount of investments performed during 2023 reached RON205mn.

Negative net debt... With estimated solid cash generation on last year, the YE balance sheet showed a negative net debt, 50% higher than last year with a negative net debt to EBITDA ratio.

View on net debt

(RON, mn.)	2018	2019	2020	2021	2022	2023
Cash & equivalents	38.9	62.4	55.2	58.9	146.0	229.6
ST Debt	54.1	62.9	50.8	41.3	26.8	36.1
LT Debt	64.2	46.1	23.1	26.8	40.9	74.7
Net Debt	79.4	46.6	18.7	9.2	-78.3	-118.9
Net Debt to EBITDA	1.10	0.38	0.16	0.07	-0.28	-0.27

Source: Company data, Erste Group Research

... allows for higher dividend payment. TTS announced company management proposes to the GSM a dividend distribution of RON68.4mn, for a payout of about 45% of individual net profit (22% of consolidated net profit). This is consistent with the company dividend policy of distribution about 45% of individual net profit. The previous years' dividend payout was about 41% of individual net profit (18% of consolidated net profit). Overall, the amount of the dividend is double of that of 2022.

Top line and profitability, somewhat lower than our expectations...

With total revenues lower 1.6% than our estimates for the year, the company registered 4.1% higher total operating expenses, leading to a 12% lower operating profit compared to our expectations. The main reasons for the difference were the revenues in 4Q23, together with the higher-than-expected costs with personnel. Overall, net income and EBITDA were about 9.6% lower than our estimates.

Reported figures in comparison

(mn. RON)	2023	2022	chng.	2023e	chng.
Total revenues	1161.1	934.4	24.3%	1180.0	-1.6%
Materials	-108	-123.8	-12.8%	-106.2	1.7%
COGS	-36.4	-32.5	12.0%	-41.3	-11.9%
Depreciation	-86.1	-72.9	18.1%	-81.8	5.2%
Subcontr.	-329.7	-331.2	-0.5%	-330.4	-0.2%
Wages	-214	-124.2	72.3%	-194.7	9.9%
Other exp.	-45.1	-45.1	0.0%	-47.2	-4.5%
Gains/losses	9.7	5.8	67.2%	23.6	-58.9%
Operating expens	-809.6	-723.9	11.8%	-778.0	4.1%
Operating profit	351.5	210.5	67.0%	402.0	-12.6%
Fin. Rev.	1.6	1	60.0%	1.3	26.7%
Fin. Costs	0.4	-2.8	-114.3%	-1.2	-133.7%
Net fin.	2.0	-1.8	-211.1%	0.1	2596.4%
PBT	353.5	208.7	69.4%	402.1	-12.1%
Tax	-48.1	-29.7	62.0%	-64.3	-25.2%
Net Income	305.4	179	70.6%	337.7	-9.6%
<i>Net margin</i>	26.3%	19.2%		28.6%	
EBITDA	437.6	283.4	54.4%	483.8	-9.6%
<i>EBITDA margin</i>	37.7%	30.3%		41.0%	

Source: Company data, Erste Group Research

Looking forward – 2024 budget

New dynamic in cereal transportation... Starting during the end of the third quarter of 2023, Ukraine has begun a new transportation corridor for cereals. This corridor, starting in the Greater Odessa area, is following the shore of Ukraine, Romania and Bulgaria, and has supplanted to previous corridor through the Black Sea that has been denounced by Russia in July 2023. According to TTS management, the volumes operated and transported from the Greater Odessa area using this Ukrainian initiative have reached levels comparable to those before the war.

... sees declining volumes on Danube... Thus, the Danube ports of Reni and Ismail have declined significantly in terms of volumes, reaching in December 2023 only about 50% of the volumes shown in September 2023. The trend continued and accelerated during the first quarter of 2024.

... while tariffs retreat from record highs. The lower volumes transited through Romania have impacted cereal transportation tariffs on the Danube, and operating tariffs in Constanta Port. While the overall volumes to be operated by TTS remain largely constant, the demand decline has influenced tariffs. Detailed data missing, our analysis remains qualitative, until details are announced.

2024 – better outlook for minerals and chemicals. According to TTS management, during 2024 total volumes will be congruent with the volumes of 2023, however shifting from cereals to minerals and chemicals. The large decline in demand of capacity for Ukrainian grain will influence significantly operations. The expected decline in cereals comes on the back of lower volumes transported on the Danube due to low crop prices in the Danube basin, and similar volumes operated in Constanta Port, while an increase in minerals is anticipated, especially in river transport of minerals.

Minerals' dynamics. The beginning of 2023 witnessed a huge backlog of minerals for river transport to Serbia, which fueled this segment in the beginning of the year. This year, the backlog doesn't exist, however the

demand for Serbia remains steady. TTS has ongoing contracts with Liberty Galati showing growth and with another Liberty rolling plant in Hungary.

Chemicals to benefit from Deciom acquisition synergies. According to company management, the acquisition of Deciom with its capacity of operating packaged chemicals has led to an improving outlook for chemical segment during 2024, compared to the very poor 2023, however no clear volume indications have been forthcoming.

Budget shows lower top line and profitability on lower revenues... According to the published company budget, management expects in 2024 a more than 5% retreat in revenues. This should come on the back of largely similar total volumes, however declining tariffs influenced by the lower demand in the cereal segment, as per our discussion above. The basis for the budget is current contracts and management expectations on volumes and tariff evolution. Again, the lack of data for the year, and especially the fourth quarter, together with any indication of operational assumptions from the company, prevents us from making an accurate assessment of the budgeted figures.

Comparison against budgeted figures

(mn. RON)	2024B	2023	chnng.	2024e	chnng.
Total revenues	1100.2	1161.1	-5.2%	1257.3	-12.5%
Materials	-99.7	-108	-7.7%	-150.9	-33.9%
COGS	-38.3	-36.4	5.2%	-44.0	-13.0%
Depreciation	-108.5	-86.1	26.0%	-115.0	-5.7%
Subcontr.	-345.2	-329.7	4.7%	-440.0	-21.6%
Wages	-262.9	-214	22.9%	-213.7	23.0%
Other exp.	-33.1	-45.1	-26.6%	-50.3	-34.2%
Gains/losses	8.1	9.7	-16.5%	25.1	-67.8%
Operating expenses	-879.6	-809.6	8.6%	-988.8	-11.0%
Operating profit	220.6	351.5	-37.2%	268.5	-17.8%
Fin. Rev.		1.6	-100.0%	1.3	-100.0%
Fin. Costs	-2.0	0.4	-600.0%	-4.1	-51.8%
Net fin.	-2.0	2.0	-200.0%	-2.8	-28.6%
PBT	218.6	353.5	-38.2%	265.7	-17.7%
Tax	-35.0	-48.1	-27.2%	-42.5	-17.7%
Net Income	183.6	305.4	-39.9%	223.2	-17.7%
<i>Net margin</i>	16.7%	26.3%		17.7%	
EBITDA	329.1	437.6	-24.8%	383.5	-14.2%
<i>EBITDA margin</i>	29.9%	37.7%		30.5%	

Source: Company data, Erste Group Research

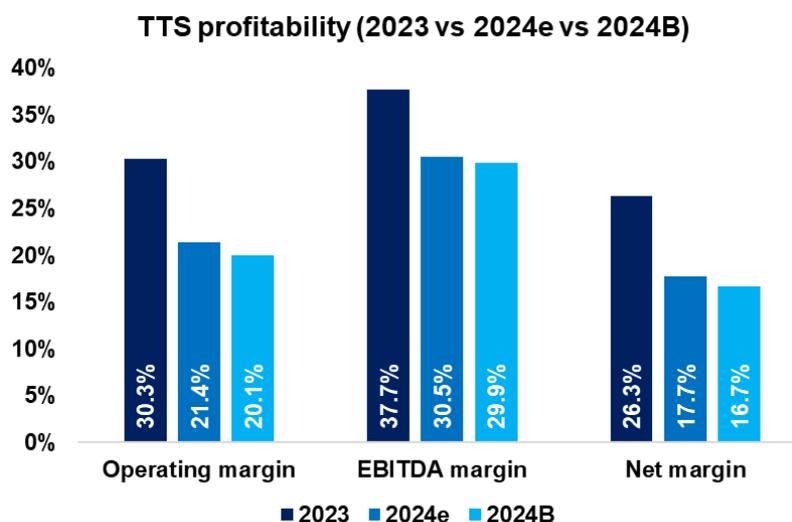
... and higher costs. According to management projections, operating costs should increase, by about 9%, which combined with the lower revenues should lead to a 37% lower profit and about 40% lower net income and 25% lower revenues. Major increases in costs should come on the back of depreciation – natural considering the company's 2023 investments, wages and subcontractors. Both wages and subcontractor expense increases should be a natural trend, considering the evolution of the last quarter of 2023, however the coming 1Q24 results should be revealing of the development of these items.

Budgeted profitability, way below 2023. Our latest 2024 forecast, issued on the back of data of half year ago, seems now overly optimistic regarding both top line and profitability. The company budgeted figures point to a top line 13% lower than our anticipation, leading to operating and net profits about 18% lower than our previous forecasts, with and EBITDA 14% than our anticipation.

Percentage of total cost increase	2024B/2023	2024e/2024B
Materials	-11.9%	46.9%
COGS	2.7%	5.2%
Depreciation	32.0%	6.0%
Subcontr.	22.1%	86.8%
Wages	69.9%	-45.0%
Other exp.	-17.1%	15.7%
Gains/losses	2.3%	-15.6%
Operating expenses	100.0%	100.0%

Source: Company data, Erste Group Research

Success of Ukrainian shipping from Greater Odessa changed the rules of the game. When we have issued our previous forecast, the impact of the Ukrainian transportation corridor along the shores of Ukraine, Romania and Bulgaria was far from being evident. We had assumed that – in the conditions of continued conflict – Ukrainian grain was to continue to be shipped via river to Constanta and transferred from barge to ship. However, according to company management, the Ukrainian cereal river transport has declined dramatically, while the overcrowding in the Constanta Port has disappeared. Thus, overall tariffs (influenced mainly the evolution of cereal tariffs) should have begun to ease during 4Q23 and continue to do so during 1Q24.



Source: Company data, Erste Group Research

We had anticipated slightly better profitability in 2024. In our previous forecast we had assumed a higher fuel price than what appears to be warranted for the current market. Also, we believed the growth in wages needed to maintain qualified personnel to be lower than what the company's current guidance. Thus, albeit we have anticipated higher operating costs than company budget, the decline in revenues seems to be higher as well, leading to an overall lower profitability. Our 2024 estimated operating margin of 21.4% is higher than the 20.1% budgeted by the company, while our net income margin at 17.7% falls below company anticipation of 16.7%, while EBITDA margins are more in line, with our previous projection at 30.5% vs. company budgeted EBITDA margin of 29.9%.

Management hints at major investment announcement but no other info available. In our latest conference call with TTS, management has alluded to a coming announcement regarding a major investment in the business. We currently have no indication of the area and the amount of the investment.

Group Research

Head of Group Research Friedrich Mostböck, CEFA [®] , CESGA [®]	+43 (0)5 0100 11902	Institutional Equity Sales Czech Republic Head: Michal Rizek Pavel Krabicka Martin Havlan Jiri Feres	+420 224 995 537 +420 224 995 411 +420 224 995 551 +420 224 995 554
CEE Macro/Fixed Income Research Head: Juraj Kotian (Macro/Fl) Katarzyna Rzentarzewska (Fixed income) Jakub Cery (Fixed income)	+43 (0)5 0100 17357 +43 (0)5 0100 17356 +43 (0)5 0100 17384	Institutional Equity Sales Hungary Levente Nándori Balázs Zánkay Krisztián Kandik	+361 235 5141 +361 235 5156 +361 235 5140
Croatia/Serbia Alen Kovac (Head) Mate Jelić Ivana Rogic	+385 72 37 1383 +385 72 37 1443 +385 72 37 2419	Institutional Equity Sales Poland Jacek Jakub Langer (Head) Tomasz Galanciak Wojciech Wysocki Przemyslaw Nowosad Maciej Senderek	+48 22 257 5711 +48 22 257 5715 +48 22 257 5714 +48 22 257 5712 +48 22 257 5713
Czech Republic David Navratil (Head) Jiri Polansky Michal Skorepa	+420 956 765 439 +420 956 765 192 +420 956 765 172	Institutional Equity Sales Romania Valerian Ionescu	+40 3735 16541
Hungary Orsolya Nyeste János Nagy	+361 268 4428 +361 272 5115	Group Markets Retail and Agency Business Head: Christian Reiss	+43 (0)5 0100 84012
Romania Ciprian Dascalu (Head) Eugen Sinca Dorina Ilasco Vlad Nicolae Ionita	+40 3735 10108 +40 3735 10435 +40 3735 10436 +40 7867 15618	Markets Retail Sales AT Head: Markus Kaller	+43 (0)5 0100 84239
Slovakia Maria Valachyova (Head) Matej Hornak	+421 2 4862 4185 +421 902 213 591	Group Markets Execution Head: Kurt Gerhold	+43 (0)5 0100 84232
Major Markets & Credit Research Head: Gudrun Egger, CEFA [®] Ralf Burchert, CEFA [®] (Sub-Sovereigns & Agencies) Hans Engel (Global Equities) Margarita Grushanina (Austria, Quant Analyst) Peter Kaufmann, CFA [®] (Corporate Bonds) Heiko Langer (Financials & Covered Bonds) Stephan Lingnau (Global Equities) Carmen Riefler-Kowarsch (Financials & Covered Bonds) Rainer Singer (Euro, US) Bernadett Povazsai-Römhild, CEFA [®] , CESGA [®] (Corporate Bonds) Elena Staelov, CIIA [®] (Corporate Bonds) Gerald Walek, CFA [®] (Euro, CHF)	+43 (0)5 0100 11909 +43 (0)5 0100 16314 +43 (0)5 0100 19835 +43 (0)5 0100 11957 +43 (0)5 0100 11183 +43 (0)5 0100 85509 +43 (0)5 0100 16574 +43 (0)5 0100 19632 +43 (0)5 0100 17331 +43 (0)5 0100 17203 +43 (0)5 0100 19641 +43 (0)5 0100 16360	Retail & Sparkassen Sales Head: Uwe Kolar	+43 (0)5 0100 83214
CEE Equity Research Head: Henning Eßkuchen Daniel Lion, CIIA [®] (Technology, Ind. Goods&Services) Michael Marschallinger, CFA [®] Nora Nagy (Telecom) Christoph Schultes, MBA, CIIA [®] (Real Estate) Thomas Unger, CFA [®] (Banks, Insurance) Vladimira Urbankova, MBA (Pharma) Martina Valenta, MBA	+43 (0)5 0100 19634 +43 (0)5 0100 17420 +43 (0)5 0100 17906 +43 (0)5 0100 17416 +43 (0)5 0100 11523 +43 (0)5 0100 17344 +43 (0)5 0100 17343 +43 (0)5 0100 11913	Corporate Treasury Prod. Distribution Head: Martina Kranzl-Carvell	+43 (0)5 0100 84147
Croatia/Serbia Mladen Dodig (Head) Boris Pevalek, CFA [®] Marko Plastic Matej Pretkovic Bruno Barbic Davor Spoljar, CFA [®] Magdalena Basic	+381 11 22 09178 +385 99 237 2201 +385 99 237 5191 +385 99 237 7519 +385 99 237 1041 +385 72 37 2825 +385 99 237 1407	Group Securities Markets Head: Thomas Einramhof	+43 (0)50100 84432
Czech Republic Petr Bartek (Head, Utilities) Jan Safranek	+420 956 765 227 +420 956 765 218	Institutional Distribution Core Head: Jürgen Niemeier	+49 (0)30 8105800 5503
Hungary József Miró (Head) András Nagy Tamás Pletser, CFA [®] (Oil & Gas)	+361 235 5131 +361 235 5132 +361 235 5135	Institutional Distribution DACH+ Head: Marc Friebertshäuser Bernd Bollhof Andreas Goll Mathias Gindele Ulrich Inhofner Sven Kienzle Rene Klases Christopher Lampe-Traupe Michael Schmotz Christoph Ungerböck Klaus Vosseler	+49 (0)711 810400 5540 +49 (0)30 8105800 5525 +49 (0)711 810400 5561 +49 (0)711 810400 5562 +43 (0)5 0100 85544 +49 (0)711 810400 5541 +49 (0)30 8105800 5521 +49 (0)30 8105800 5523 +43 (0)5 0100 85542 +43 (0)5 0100 85558 +49 (0)711 810400 5560
Poland Cezary Bernatek (Head) Piotr Bogusz Lukasz Jańczak Krzysztof Kawa, CIIA [®] Jakub Szkopek	+48 22 257 5751 +48 22 257 5755 +48 22 257 5754 +48 22 257 5752 +48 22 257 5753	Slovakia Šarlota Šipulová Monika Směliková	+421 2 4862 5619 +421 2 4862 5629
Romania Caius Rapanu	+40 3735 10441	Institutional Distribution CEE & Insti AM CZ Head: Antun Burić Jaromir Malak	+385 (0)7237 2439 +43 (0)5 0100 84254
Group Institutional & Retail Sales		Czech Republic Head: Ondrej Cech Milan Bartoš Jan Porvich Pavel Zdichynec	+420 2 2499 5577 +420 2 2499 5562 +420 2 2499 5566 +420 2 2499 5590
Group Institutional Equity Sales Head: Michal Rizek	+420 224 995 537	Croatia Head: Antun Burić Zvonimir Tukač Natalija Zujic	+385 (0)7237 2439 +385 (0)7237 1787 +385 (0)7237 1638
Cash Equity Sales Werner Fuerst Viktoria Kubalцова Thomas Schneidhofer Oliver Schuster	+43 (0)5 0100 83121 +43 (0)5 0100 83124 +43 (0)5 0100 83120 +43 (0)5 0100 83119	Hungary Head: Peter Csizmadia Gábor Bálint Gergő Szabo	+36 1 237 8211 +36 1 237 8205 +36 1 237 8209
Institutional Equity Sales Croatia Matija Tkalicanac	+385 72 37 21 14	Romania Head: Octavian Florin Munteanu	+40 746128914
Group Institutional Equity Sales Head: Michal Rizek	+420 224 995 537	Institutional Asset Management Czech Republic Head: Petr Holeček Petra Maděrová Martin Peřina David Petráček Blanca Weinerová Petr Valenta	+420 956 765 453 +420 956 765 178 +420 956 765 106 +420 956 765 809 +420 956 765 317 +420 956 765 140
Cash Equity Sales Werner Fuerst Viktoria Kubalцова Thomas Schneidhofer Oliver Schuster	+43 (0)5 0100 83121 +43 (0)5 0100 83124 +43 (0)5 0100 83120 +43 (0)5 0100 83119	Group Fixed Income Securities Markets Head: Goran Hobljaj	+43 (0)50100 84403
Institutional Equity Sales Croatia Matija Tkalicanac	+385 72 37 21 14	FISM Flow Head: Gorjan Hobljaj Margit Hraschek Bernd Thaler Ciprian Mitu Christian Kiensberger Zsuzsanna Toth	+43 (0)5 0100 84403 +43 (0)5 0100 84117 +43 (0)5 0100 84119 +43 (0)5 0100 85612 +43 (0)5 0100 84323 +36-1-237 8209
		Poland Pawel Kielek Michal Jarmakowicz	+48 22 538 6223 +43 50100 85611

Company description

TTS is the premier river transportation and port operations provider in the Danube Basin and the Constanta Port

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Head Office: Wien
Commercial Register No: FN 33209m
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